International Thomson Organisation Limited

Annual Report 1978

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Contents

Results at a glance
(millions of pounds sterling)

	1978	1977
Net sales	576.7	448.9
Trading profit	146.5	107.2
Earnings before extraordinary item	44.1	38.4
Earnings for the year	44.1	43.6
Earnings per share – fully diluted		
Before extraordinary item	31.7p	27.6p
After extraordinary item	31.7p	31.3p

Directors

International Thomson Organisation Limited

Lord Thomson of Fleet CHAIRMAN
J A Tory DEPUTY CHAIRMAN
G C Brunton PRESIDENT
W M Brown EXECUTIVE VICE-PRESIDENT
W J DesLauriers
C E Medland
J W Whittall

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Thomson British Holdings Limited
Main Board

Lord Thomson of Fleet CHAIRMAN
G C Brunton MANAGING DIRECTOR AND CHIEF EXECUTIVE
W M Brown
J Evans
Sir Denis Hamilton
G B Parrack
Lord Thomas of Remenham
J A Tory

Thomson British Holdings Limited
Executive Board

G C Brunton CHAIRMAN
W M Brown
I M Clubb
C N D Cole
J Evans
G Hamill
Sir Denis Hamilton
E G Hedgcock
M J Hussey
B Llewellyn
G B Parrack
J H Sauvage

M D Knight, Company Secretary

Chairman's Review

This is the first occasion on which I write to you as the Chairman of International Thomson Organisation Ltd.

Those of you who were shareholders in The Thomson Organisation Ltd. in July 1978 will have received the explanatory statement which was circulated to shareholders at that time and will therefore be familiar with the details of the reorganization which became effective in September of last year. Nevertheless I hope you will forgive me if I reiterate some of the key reasons that led us to the conclusion that reorganization was necessary, a view which was subsequently supported by the overwhelming agreement to the proposals received from shareholders generally.

The reorganization was designed to achieve two key objectives. Firstly, it was designed to bring into the public company the North Sea petroleum interests which had previously been held by Thomson Scottish Associates although subject to an option in respect of 90% in favour of The Thomson Organisation Ltd. That objective was achieved and in fact, for reasons explained at the time, 100% of the petroleum interests were brought into the public company. As the results for 1978 show, this has made available to your company very significant cash flows and thus funds for investment on a greatly increased scale. It was the scale of these resources which effectively decided the second key objective. This was to enable your company to have freedom to invest both in the United Kingdom and internationally.

It is our aim that ITOL shall become a leading international publishing, communications and information business with strong ancillary interests in leisure and natural resources. We have the experience and the talent to undertake this expansion. Historically, by far the greater part of our business has been in the United Kingdom and this position will continue into the foreseeable future. As the President's Report explains, we have a massive capital spending program in the United Kingdom to continue our growth and development there. When the British requirement for capital has been met, there will be substantial funds for investment in other countries and as we have previously indicated the United States is the major area of interest for expansion.

Already we have begun to carry through these plans, as the President's Report describes.

The year, as you will read, has had many high points and its low ones, some very dispiriting indeed. However, I think of the extraordinary devotion shown by our travel staff in the frequent flying disruptions last year over which they had no control. I recall the determination of men and women to get to their work and of our transport staff to distribute our papers during the terrible weather conditions of the winter in the United Kingdom. My thoughts are of salesmen who have brought in record revenues and of the massively high standard of creativity in every area of our businesses.

All this contrasts with the wretched number of disputes, almost all unofficial, on our newspapers, especially the national ones. The message, surely, is that we must develop new skills in the sincerity of communicating our common purpose. We must forget scepticism and take risks to obtain the commitment of all our staff. We must be constantly aware of welfare, working environment and terms and conditions of employment. We want working throughout our organisation to be satisfying and rewarding. Shareholders, management and every individual member of the staff have a

mutual interest in the efficiency and prosperity of their Company. Otherwise, job security and the level of wages of employees are as much threatened as a fair return to shareholders.

International Thomson Organisation Ltd. is the financial holding company of our Group and as such your board inevitably bears the responsibility of making sure that the plans of the operating groups fit into the overall strategy. In this connection, we are delighted to have on the board as non-executive directors Mr. W. J. DesLauriers, Mr. C. E. Medland and Mr. J. W. Whittall who have distinguished backgrounds in the law, investment dealing and insurance.

In addition to Mr. John A. Tory, Deputy Chairman, I welcome also to the board Mr. G. C. Brunton and Mr. W. M. Brown. Mr. Brunton is the President of your company and is also the Managing Director and Chief Executive of Thomson British Holdings Ltd., our principal United Kingdom holding company. Mr. W. M. Brown is the Executive Vice-President of your Company and the financial director of Thomson British Holdings Ltd. I believe we have now created a structure in which, within the guidelines set by your board, each of our major operating groups will enjoy an increasing degree of autonomy in the conduct of its businesses. Such delegation inevitably places heavier responsibilities on our senior executives and managers. This places on us a special duty to develop and nourish our management strength and I cannot emphasise too strongly what the President has said about the priority we must give to the human resources aspect at all levels of our enterprise, on which it so crucially depends.

It is a rapidly changing world and the genius of new inventions should be a challenge to all of us to harness the results for the expansion of our activities. Ultimately, we hope that this will create more employment and more rewards for our staffs and of course benefits to the shareholders for the risks they have taken.

Thomson of Fleet

President's Report

I am pleased to make my first report as President of International Thomson Organisation Ltd. Its creation will enable your group to continue its strong growth in the United Kingdom and at the same time give us the opportunity to compete on more equal terms with companies based in the United States and in other countries in developing our interests outside Great Britain. I shall be setting out in some detail later in this report our plans and policies for the future.

In my report, my references to the previous year relate to the companies which are now merged into International Thomson Organisation.

Group trading profit showed very substantial growth to which most of our operating companies made significant contributions. I shall comment first on our publishing, travel and other interests and then report separately on our oil interests.

Newspapers, publishing, information services, Yellow Pages and travel achieved net sales of £390.7m, some £54.5m higher than the previous year. Trading profit from these activities was £36.2m, some £12.6m higher than last year, after taking into account the cost of about £4m, arising from the suspension of publication at Times Newspapers.

North Sea interests achieved trading profit of £109.9m, some £28m higher than last year, and after petroleum revenue and corporation tax earned £32.5m.

Group trading profit was £146.5m giving earnings of £44.1m and fully diluted earnings per share of 31.7p.

The analysis of trading profit before costs not allocated to operating companies was:

	1978	1977
	£ million	
National newspapers	(1.3)	1.9
Regional newspapers	13.0	9.6
Publishing and information	7.2	8.0
Travel	17.3	4.1
Oil	109.9	81.9
Other activities including associated companies	3.6	1.6

The financial statements place greater emphasis on "fully diluted" earnings per share, rather than on the more normal "basic" earnings per share because of the significant proportion of the group's capital represented by convertible preference shares.

At the time of the reorganisation last July the board set out its estimated earnings for the year and also the assumptions on which those estimates were based. Two major assumptions were that there would be no important changes in taxation and no significant dislocation due to industrial disputes. Unfortunately, neither of these assumptions was realised. In August 1978 a proposed change in petroleum revenue tax was announced, but by the time our financial statements were prepared the necessary legislation had not become law, because of the calling of a General Election in the United Kingdom. As a matter of prudence, we have taken those proposals into account. There were significant losses due to the industrial situation at Times Newspapers. There are other items of a relatively minor nature.
We assumed an exchange rate of US $1.91 to the £ and accordingly unrealised gains on currency resulted from the comparative strength of sterling. Additionally, higher revenues resulted from increased oil production sold. A summary of the variances against estimated earnings is:

Taxation	(£4m)
Times Newspapers	(£2m)
Currency	£5m
Oil production	£1m
Other items	(£1m)

The Group's financial position is strengthening. Total debt at the year end was £137.2m, much of it related to oil, and of this much is limited recourse. These loans are being progressively repaid to give reasonable gearing for the Group. At the year end total cash and bank term deposits were £82.4m. We plan to retain a sizeable cash balance to cushion the effect of any unforeseen interruption in North Sea production, however unlikely that eventuality may be.

The outstanding achievement of the year was the major growth in the profitability of our travel interests—Thomson Holidays, Britannia Airways and Lunn Poly. Their trading profit for the year was £17.3m compared with £4.1m in the previous year. This was achieved with a relatively small increase in passengers, two additional aircraft and a growth in net sales of 22.7%.

We were helped in most of our activities by a more stable economic environment, lower inflation rates and a significant increase in the real value of consumer's disposable income.

What could have been an exceptional year was adversely affected by industrial disputes, principally at Times Newspapers, but also at Thomson Regional Newspapers. Thomson Travel also suffered as a result of air traffic control disputes.

Times Newspapers
Much has been written and spoken about the problems at Times Newspapers, and I do not think it would be helpful if I were to offer a day by day account of the problems of the last year and the first months of this year. Now is the time when we should look forward and not backwards. We must concern ourselves with building new and better relationships and in trying to create an environment in which all of us associated with these great newspapers and publications can work together.

I have confidence that, given the opportunity of stable production, The Times, the Sunday Times and the supplements have remarkable opportunities for growth and development and Times Newspapers can become strong and viable. We have stated quite clearly to its management that we will draw no dividends from the company for the next five years and that profits and cash flow will be available for viable investment in the company and its future, provided that their immediate problems are solved on an acceptable basis.

Thomson Regional Newspapers
The modernisation programme continued satisfactorily and during the year the first tangible results from the introduction of more modern equipment and advanced technology became evident. The main objective of this substantial investment programme is to create new marketing opportunities from more flexible methods of production. The real benefits will emerge in the early 1980s.

In 1978 Thomson Regional Newspapers achieved a trading profit some 35.4% higher than in the previous year and that fine performance was achieved after sustaining substantial losses from industrial disputes most of which affected the whole regional newspaper industry.

Thomson Publications
This company, which operates with three main divisions—books, magazines and information services—had a disappointing year. The problem areas, which are receiving urgent attention, were some of the company's overseas interests—books in Australia, Nigeria and the United States and magazines in Spain. The United Kingdom and Canadian book publishing companies had an excellent year with Nelsons, Michael Joseph and Hamish Hamilton all doing particularly well. The UK business magazines achieved record results and Family Circle and Living broke all their advertising records. Derwent Publications recorded another year of impressive growth.

Despite the year's mixed performance, the publications division should show substantial growth over the next few years.

Thomson Withy Grove
Sporting Chronicle Publications suffered from industrial disruption and adverse racing conditions, while our newspaper contract work yielded a 20% increase in revenue. The weekly total of contract printed copies was

14.75m of 444 broad sheet pages. Overall trading losses continued.

Thomson Yellow Pages
There was a 19% increase in revenue and a 15% improvement in trading profit.

During the year the Post Office indicated that they would be seeking tenders for the Directory contracts after 1980. Thomson Yellow Pages submitted their proposals in January and are confident of a continuing relationship with the Post Office.

In recognition of the increasingly important role which our partners Reuben H. Donnelley, a subsidiary of Dun & Bradstreet Inc., play in the development of Yellow Pages we have agreed in principle to enable them to bring their interest from 35% to just under 50%.

Thomson Travel
We had a very successful year in which trading profit reached some £17m. This figure more than doubled the previous record. Summer carryings were only marginally higher than last year, but the load factor approached 95%. With a strong market demand, sales costs were proportionately lower.

Britannia Airways had an excellent year. For the second year the airline suffered severe dislocation due to air traffic control disruption in Europe. Britannia's performance in spite of these difficulties was quite exceptional and reinforces our decision to build up their capacity and modernise their fleet. Lunn Poly, with 50 retail outlets, had a good year and are creating a very high reputation in the growing business travel market.

Thomson North Sea and Thomson Scottish Petroleum
Overall, Piper and Claymore fields progressed very satisfactorily during the year with an average production of 311,000 barrels of oil per day. The development phase on both projects is now substantially complete, but we continue to keep in mind the high level of operating risks inherent in the North Sea.

Apart from our 20% interest in Piper and Claymore we continue to be interested in further North Sea involvement, both in exploration and development as well as in transporting other licencees' crude oil through the pipeline and terminal system. In March 1979, we and our partners in the Occidental consortium were pleased to be conditionally awarded, with the British National Oil Corporation, block 13/28 in the Sixth Round of licensing.

During the year the Secretary of State for Energy approved, subject to final documentation, a "farm-in" agreement between the Occidental consortium and the Sun Oil group in block 22/1A, where it is planned one well will be drilled this year.

The consortium has entered into an agreement with Texaco to convey oil and gas from Texaco's Tartan field through its system. We regard the pipeline and terminal system, which required major investment and risk to install, as an attractive commercial asset.

We are conscious that by extracting oil from the North Sea we are involved in depleting a natural resource. In order to create a new natural resource, we have set up a forestry operation which has acquired bare land in Scotland for planting trees.

Principal statistics relating to the Occidental consortium North Sea operations of which 20% is attributable to your company, are:

	Piper	*Claymore*	*Total*
Recoverable reserves (millions of barrels):	618	404	1,022
Production since start-up (millions of barrels):	157	24	181
1978 production (millions of barrels):	92	22	114
1978 production average (barrels per day):	251,000	60,000	311,000

Other interests
Anglo Appointments: This small group of employment bureaux operates 14 branches in the South of England and achieved a trading profit of £137,000. This is most encouraging —particularly at a time of high unemployment and represents an excellent return on the original investment.

Computacar: In July 1978 we acquired Computacar, a computerised service for bringing together the

buyers and sellers of motor cars. The company was successfully re-launched in January, and achieved impressive growth in the volume of business. We expect this operation to be profitable this year.

EC (Holdings): We now wholly own this company, whose principal interest is AI Welders, Inverness, which manufactures specialised welding machinery. It is expected to move into profit this year, and its future outlook is more promising.

Associated Companies:
Bertelsmann-Thomson Fachverlag GmbH, in which we increased our interest to 45%, produced good results. The performance of two of our larger interests, **Solicitors' Law Stationery Society** and **Wigham Poland** was disappointing and their managements are taking the appropriate action to reverse these trends in 1979.

Management
I referred last year to the great importance that we attach as a group to the development of our human resources at all levels. We see as a prime responsibility the development of senior management and we are giving much attention to how we recruit, develop, deploy and reward our executives.

It is the positive policy of the group to encourage training programmes at all levels, from management training of a sophisticated kind at leading management colleges to seminars in health and safety, communications skills, whatever may be appropriate to the functions of the individuals concerned.

Each year, some 24 middle managers drawn from all parts of the Group attend appropriate courses at Ashridge Management College, and some 12 attend senior management courses at the Oxford Centre for Management Studies. We are working closely with the Oxford Centre to structure such senior courses in a manner more tailormade for the needs of particular individuals. We plan to develop this trend further in 1979.

We re-emphasised to our operating companies that, in addition to attaining an appropriate business performance in whatever area they are engaged, we consider it part of their brief to recognise that business has a social responsibility. In this connection in 1978, we have encouraged operating companies wherever possible to support the Youth Opportunities Scheme, run under the auspices of the Manpower Services Commission, whereby young unemployed people are enabled to gain work experience with a view to enhancing their job prospects. In the United Kingdom, youth unemployment is a national problem and we have considered it right to assist in whatever way we can.

The year saw considerable improvement in our management audit procedures and we intend to develop this further. To this end Mr. D. H. G. Rose has been promoted to Personnel Director in the United Kingdom. He was formerly Personnel Director of Thomson Publications. We see it as our prime responsibility to set general employment policies for implementation by our operating companies to suit their specific circumstances, and we regard it as a central responsibility to ensure that certain minimum standards are met. Above all, we consider it our responsibility to ensure that the group has the managerial and creative talents in all areas to meet both current and future needs.

We are developing further the communications policies of the Group. We have recently recruited Mr. M. J. Cudlipp as Director of Information. He comes to us from the National Enterprise Board, where he was a divisional director and was formerly a Deputy Editor of The Times. Mr. Cudlipp will have prime responsibility for external relations and also oversee our internal communications policies. In that area we are encouraging all subsidiaries to review and develop their own communications policies, especially towards their employees.

In the course of the year Mr. W. C. Golding, who was Deputy Managing Director of The Thomson Organisation retired. Prior to holding that post he was Managing Director of Thomson Regional Newspapers. I should like to thank him for his fine contribution over many years in the Group. Following Mr. Golding's retirement Mr. G. B. Parrack, a main board director of Thomson British Holdings,

was appointed Chairman of Thomson Yellow Pages, Mr. J. Lockton was appointed a director and Mr. T. Methenitis is joining its board.

Dr. A. M. Dunnett retired as Chairman of Thomson North Sea and Thomson Scottish Petroleum, but we are glad to say he has agreed to remain on the board of these two companies. Dr. Dunnett, whose former distinguished career as Editor, Managing Director and Chairman of The Scotsman, is well-known, was in the forefront of our North Sea oil developments. Your company owes him a considerable debt. Dr. Dunnett is succeeded as Chairman by Mr. W. M. Brown, Executive Vice-President of your Company.

During 1978 and early 1979 a number of other important management changes took place in our operating companies. In Times Newspapers, Mr. D. Nisbet-Smith was appointed General Manager and Director of the company and Mr. D. Cruickshank also joined the Executive Board.

The board structure of Thomson Regional Newspapers was reorganised. Three Assistant Managing Directors were appointed, Mr. A. F. C. Montgomery, Mr. M. J. Seales and Mr. D. K. Snedden. Mr. A. Carter retired as deputy Managing Director. Mr. P. J. Lawrence and Mr. H. Green were appointed to the board as Finance Director and Personnel Development Director respectively.

In Thomson Publications Mr. M. Weekes joined the company as Financial Director and Mr. J. Bryers as Personnel Director.

In Thomson Travel Mr. R. Davies took over responsibility for tour operating.

Mr. R. Roberts-Miller and Mr. C. Newbold were appointed President and Vice-President (Planning) of Thomson Vacations Inc.

Mr. N. R. Harrison has been transferred from Thomson North Sea to Thomson-Monteith, based in Dallas, Texas.

Mr. A. R. Jackson joined the board of Thomson Withy Grove as Financial Director.

Mr. C. R. Jones was promoted to Pensions Director in the United Kingdom.

To all our colleagues who have retired I wish the happiest of retirements and to those who have newly joined or taken on new responsibilities I wish all success in their endeavours.

Prospects for 1979

The first three months of the year showed satisfactory performance, except for Times Newspapers, where losses were incurred. At the time of writing, the results for Times Newspapers for the year as a whole cannot be predicted with reasonable accuracy.

Although the Group expects further growth in revenues and trading profits in the principal areas of activity in 1979, the cost of the suspension at Times Newspapers and the uncertainty as to the level of taxation of oil profits make it difficult at present to make any prediction as to the level of earnings for the year.

Thomson Regional Newspapers have had a difficult start to the year as a result of the journalists' dispute, the national transport strike and appalling weather conditions. However, they made a recovery in February and March and were close to target by the end of the first quarter. They anticipate another good year.

Thomson Publications have had a promising start to the year and are planning for growth and progress. Forward advertising bookings are good and the book publishers' lists are strong.

Thomson Yellow Pages plan a steady development of markets and sales. Our partners, Reuben H. Donnelley, will play an increasing part in the marketing effort. The year should be a satisfactory one for our customers, ourselves and the Post Office.

Thomson Travel should enjoy another excellent year. Bookings are strong and they have increased the capacity of Britannia Airways to handle most of the growth in volume. Two cautionary factors are the price of aviation fuel, which has risen significantly since the beginning of the year, and the possibility of further dislocation to flights due to air traffic control disruption in Europe.

The Piper and Claymore fields are expected to be at about peak production during the course of the year. It is anticipated that the current year should show further growth in trading profit, especially because of

the recent increase in the price of crude oil. But North Sea operations involve high risk and unforeseen events can have an adverse effect.

Plans for the Future
The future for which we have planned is here and it seems appropriate at this time that I should set out in some detail the policies and the plans we intend to follow to take your Company into the eighties.

The Company's objective is to become a leading international publishing, communications and information business, with strong ancillary interests in leisure and natural resources. Our present business is strong, efficient and profitable and we anticipate a substantial cash inflow for several years ahead. Revenues from existing oil interests are expected to peak in the next few years and then decline as production falls. Our intention is to invest these funds in our existing businesses and to acquire new ones. We shall be looking for high quality earnings in businesses with strong growth potential. In pursuing this policy we shall be far more concerned to achieve medium and long term objectives than to increase short-term earnings. We shall continue to build for the future.

The reorganisation which was carried through last year gives your Company the opportunity to invest anywhere in the world without many of the constraints which in the past have limited our freedom of action. We envisage that the bulk of our investment programme outside Britain will be directed to North America and particularly the United States. A description of some of our current developments will illustrate our strategy in action.

The development programme is well under way. Wadsworth, Inc. of San Francisco was acquired last year, for technical reasons, by Thomson family interests. Accompanying this report is a proposal for its acquisition by your company without profit to the family. During the year the operating profits of this distinguished publisher of college text books increased by some 66% from the 1977 profits on which the purchase was originally based. Wadsworth will provide a strong base from which to develop our publishing interests in higher education. It has excellent management and high potential. It is already embarked on accelerated development of its publishing programme to expand its market share.

In March 1979 your Company announced the acquisition of Callaghan & Company of Chicago, an eminent legal publisher. Callaghan, an old established family business, represents one of the few remaining independent legal publishers of medium size in the United States. We see legal publishing as an area of steady and long-term growth potential and this acquisition, bringing with it a fine team of executives and staff, will provide the base for expansion.

Other high quality publishing opportunities are at various stages of consideration, discussion or negotiation. In all cases our main criteria are quality and the medium to long-term potential of the businesses under review.

In travel we are establishing operations in the United States. A team of senior executives from Thomson Holidays have set up Thomson Vacations Inc. in Chicago and this autumn will be launching a first programme of 30,000 holidays to resorts traditionally used by Americans. Already plans have been formulated for further development. Tour operating in the United States has become an attractive opportunity as a result of the liberalisation of the rules applying to air charter. The package tour business is one of the few commercial operations where a European operator may have the advantage of greater experience. We are not planning at this time to develop an airline business in the United States and we are negotiating our carrier arrangements with domestic airlines.

This development could be of very real significance to your Company in the future.

The development of our natural resources interests in North America has been launched through a subsidiary in the United States, Thomson Petroleum Holdings Inc. TPH has entered into a partnership, Thomson-Monteith, with Mr. E. E. Monteith, for investment in oil and gas onshore in the United States.

Mr. Monteith is a highly experienced petroleum engineer and former banker. Our policy is to acquire production reserves in the United States and in due course to undertake a limited exploration programme. We have set strict criteria and are seeking sound medium to long-term earnings opportunities. We anticipate the arrangement concluded with Mr. Monteith will prove of great importance in the years ahead.

We are pursuing these and other opportunities in North America. But ambitious as our plans may appear for international development, the resources we plan to commit to our existing businesses in the United Kingdom are also very substantial. Apart from the continuing investment in modernising our regional newspapers, we intend to rebuild and re-equip our newspaper centres in Blackburn and Belfast. Major investment is planned for Britannia Airways in the next few years, both by increasing the size of the fleet and by replacing some of the older aircraft. Thomson Publications has plans for organic development and for acquisitions. We have given their requirements a high priority.

It is difficult to be as definite about the needs of Times Newspapers. I have little doubt that if they were able to plan on a secure basis, they would ask for additional resources to carry out their own plans for growth and development.

In the North Sea further capital spending will be incurred to complete our existing facilities. We have set a high priority for continuing exploration and development in the North Sea.

Our United Kingdom capital spending outside oil over the next five years is estimated to be significantly in excess of £100m.

In 1979, some two thirds of our earnings are budgeted to come from oil and the balance from our other activities. We plan that by 1983, with higher overall earnings, only about 25% will come from oil with the balance from our other activities. In addition we plan to increase very significantly the percentage of earnings emanating from the United States.

Many of the markets in which we operate are becoming increasingly international in character and our plans called for the creation of a company that could take advantage of this.

Our success has been due to the dedicated efforts of the managers and staff, who represent our real strength. I should like to thank them for all their efforts. I am confident that as members of International Thomson Organisation they will be equal to the challenges that great opportunities present in the future.

G. C. Brunton

Boards of Directors

International Thomson Organisation Limited

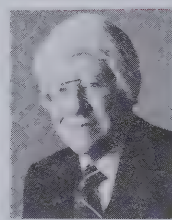

Lord Thomson of Fleet
CHAIRMAN


J A Tory
DEPUTY CHAIRMAN


G C Brunton
PRESIDENT


W M Brown
EXECUTIVE VICE-PRESIDENT


W J DesLauriers


C E Medland


J W Whittall

Thomson British Holdings Limited


Lord Thomson of Fleet
CHAIRMAN


G C Brunton
MANAGING DIRECTOR AND CHIEF EXECUTIVE


W M Brown


J Evans


Sir Denis Hamilton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CHAIRMAN


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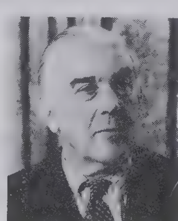
M J Hussey


B Llewellyn


G B Parrack


J H Sauvage

Auditors' report

To the shareholders of International Thomson Organisation Limited

We have examined the consolidated balance sheet of International Thomson Organisation Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of International Thomson Organisation Limited as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
May 2, 1979

Price Waterhouse & Co.
Chartered Accountants

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of International Thomson Organisation Limited (ITOL) and all companies in which it holds more than a 50% interest and are prepared in accordance with accounting principles generally accepted in Canada.

Under a reorganization in 1978 the ordinary shareholders of The Thomson Organisation Limited (TTO) exchanged their ordinary shares of TTO for shares of ITOL and related shares of Thomson British Holdings Limited, a subsidiary of ITOL. To reflect this reorganization and its effect on the interests of the shareholders, the consolidated financial statements represent, on a combined basis, the assets and liabilities of these companies and their subsidiaries, and the results of their operations for the current and prior years at amounts recorded in their financial statements (note 1).

The results of operations of subsidiaries are included from their respective dates of acquisition. All subsidiaries are consolidated as of their December 31 year-ends.

Since most of the operations of the companies are in the United Kingdom the consolidated financial statements are expressed in sterling.

Inventories

Inventories of raw materials, work in progress and finished goods are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Investments

Investments in associated companies over which ITOL has significant influence but holds not more than a 50% interest, are accounted for by the equity method from the dates of acquisition.

The year-end of the majority of associated companies is December 31.

Other long term investments are recorded at cost on acquisition.

Provision is made for any permanent impairment in the value of investments.

North Sea oilfields

(a) *Consolidation method*
The interest in North Sea oilfields is accounted for by the proportionate consolidation method.

(b) *Share of development costs of North Sea oilfields*
The share of the cost of developing North Sea oilfields is stated at cost less depreciation, depletion and amortization determined as follows:

Leasehold acquisition and exploration and exploratory well costs are expensed as incurred. Upon development of a successful oilfield those costs which relate to the oilfield, as well as development dry holes, are capitalized.

The cost of producing properties is depleted and tangible and intangible expenditures thereon are depreciated or amortized on a unit of production basis over the estimated recoverable reserves.

(c) *Petroleum revenue tax*
The amount charged against earnings in respect of petroleum revenue tax is calculated on a unit of production basis and that portion which is expected to be paid in future years is included in deferred income taxes.

(d) *Abandonment provision*
Provision is made on a unit of production basis for certain liabilities that may arise on the abandonment of the oilfields at the end of their productive lives.

Fixed assets and depreciation
Fixed assets are recorded at cost except for major United Kingdom properties recorded at appraised values as at December 31, 1977 (note 16).

Fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:—

Buildings – 40 years

Machinery and equipment – 3 to 25 years

Aircraft and spares – 12 years

Copyrights and goodwill
Copyrights of newspapers and other publications purchased are stated at cost on acquisition.

Goodwill represents the excess of cost of shares of acquired companies over values attributed to underlying net assets. Substantially all goodwill was acquired prior to 1974 and is not being amortized.

Based on annual reviews, any permanent impairment in the values of copyrights and goodwill is written off against earnings.

Government grants
Grants in respect of acquisitions of fixed assets are regarded as deferred credits and amortized over the estimated useful lives of the related assets.

Income taxes
ITOL follows the tax allocation method in providing for income taxes (including petroleum revenue tax) whereby earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result from timing differences between the recognition of income and expenses for accounting and tax purposes, are reflected as deferred income taxes in the financial statements.

Pensions
ITOL and its subsidiaries have pension plans covering most employees. Costs are provided for, and funded, based on actuarial valuations. Based on an actuarial valuation as at June 30, 1978 unfunded past service costs amounted to £8.1 million and are being funded and charged against earnings over 19 years.

Foreign currency translation
Assets, liabilities and the results of operations expressed in currencies other than sterling are translated at rates of exchange at December 31.

Gains and losses on currency translations are included in earnings.

Consolidated statement of earnings
(millions of pounds sterling)

	Year ended December 31 1978	1977
Net sales (note 5)	576.7	448.9
Trading profit (note 5), being earnings before undernoted items	146.5	107.2
Interest (note 8)	9.8	15.5
	136.7	91.7
Income taxes (note 9)	90.9	51.6
	45.8	40.1
Minority interest	1.7	1.7
Earnings before extraordinary item	44.1	38.4
Extraordinary item (note 10)	—	5.2
Earnings for the year	44.1	43.6
Earnings per share – fully diluted (note 11):		
Before extraordinary item	31.7p	27.6p
After extraordinary item	31.7p	31.3p

Consolidated statement of retained earnings
(millions of pounds sterling)

	Year ended December 31 1978	1977
Balance at beginning of year (note 3(a))	37.9	(15.6)
Earnings for the year	44.1	43.6
	82.0	28.0
Other changes in the year (note 3(b))	(28.4)	10.4
	53.6	38.4
Dividends (note 12)	6.9	0.5
Balance at end of year	46.7	37.9

Consolidated balance sheet
(millions of pounds sterling)

	December 31 1978	1977
Assets		
Current assets:		
Cash and bank term deposits	82.4	43.0
Accounts receivable	93.9	67.9
Inventories (note 13)	24.9	21.8
	201.2	132.7
Investments (note 14)	15.1	15.1
Share of development costs of North Sea oilfields (note 15)	149.1	128.6
Fixed assets (note 16)	99.4	83.8
Copyrights and goodwill	25.7	26.5
	490.5	386.7
Liabilities and shareholders' equity		
Current liabilities:		
Bank short-term debt	15.7	5.3
Accounts payable	102.4	75.8
Due to parent company	2.0	3.1
Dividends payable	6.3	0.5
Income taxes	45.6	3.3
Current portion of long-term debt (note 17)	19.9	15.9
	191.9	103.9
Long-term debt (note 17)	101.6	166.8
Abandonment provision	5.1	1.6
Government grants	2.3	2.1
Deferred income taxes	96.3	52.5
Minority interest (note 4)	10.6	11.1
Shareholders' equity:		
Share capital (note 2)	36.0	10.8
Retained earnings	46.7	37.9
	82.7	48.7
	490.5	386.7

Approved by the board

Thomson of Fleet, DIRECTOR

G. C. Brunton, DIRECTOR

Consolidated statement of changes in financial position
(millions of pounds sterling)

	Year ended December 31 1978	1977
Source of Funds		
Operations		
Earnings, before extraordinary item in 1977	44.1	38.4
Add items not involving funds:		
Depreciation, depletion and amortization	26.0	14.0
Abandonment provision	3.5	1.6
Deferred income taxes	55.3	46.0
Minority interest	1.7	1.7
Funds generated from operations	130.6	101.7
Proceeds from long-term debt	40.0	56.5
Disposal of fixed assets and investments	2.2	10.1
Other	0.8	0.8
Shares issued to the Thomson family in reduction of an amount owing	1.1	—
	174.7	169.1
Use of Funds		
Additions to fixed assets	24.6	17.9
Additions to share of development costs of North Sea oilfields	38.9	41.0
Additions to investments	0.7	1.8
Reductions of long-term debt	105.2	78.7
Dividends	6.9	0.5
Dividends to minority interests by subsidiaries	2.1	1.4
United Kingdom advance corporation tax	11.5	—
Reorganization costs	4.3	—
	194.2	141.3
Increase (decrease) in working capital	(19.5)	27.8
Working capital at beginning of year	28.8	1.0
Working capital at end of year	9.3	28.8

Notes to consolidated financial statements
(unless otherwise stated, all figures are in millions of pounds sterling)

1. Reorganization

(a) *Background*
International Thomson Organisation Limited (ITOL) was incorporated under the laws of the Province of Ontario, Canada on December 28, 1977. In 1978 ITOL was party to a reorganization of the interests of the Thomson family and those of the public shareholders in The Thomson Organisation Limited (TTO), a United Kingdom company. This reorganization took into account the rights of TTO under its option to acquire for a nominal consideration 90% of the North Sea petroleum interests of Thomson Scottish Associates Limited (TSA), a United Kingdom company then owned by the Thomson family.

The reorganization involving ITOL, all the interests of TTO and the North Sea petroleum interests of TSA became effective on September 19, 1978 through the exchange by:

(a) the Thomson family of their shares in Thomson British Holdings Limited (TBH), a United Kingdom company which held their interests in the ordinary shares of TTO and TSA; and

(b) the public shareholders of their ordinary shares in TTO,

for common shares and convertible redeemable preference shares (convertible shares) of ITOL and related common shares and related convertible redeemable preference shares (convertible shares) of TBH. The exchange of shares was one common share of ITOL together with one related common share of TBH and three convertible shares of ITOL together with three related convertible shares of TBH for every four TTO ordinary shares held. The exchange was on a basis which provided that the interest of shareholders in the share capital of ITOL and related share capital of TBH was in proportion to their previous interests in the equity share capital of TTO; in addition, ITOL issued further shares to the Thomson family to take account of the acquisition of the 10% of TSA's petroleum interests not covered by the TTO option. Because the reorganization resulted in the assumption by ITOL of £10.5 million of indebtedness of TBH to the Thomson family, the public shareholders of TTO received as compensation a cash payment of 7½p per ordinary share, amounting to £2.0 million, contributed by the Thomson family.

(b) *Basis of accounting*
In accounting for the reorganization, assets and liabilities of ITOL and TBH are reflected at the amounts recorded in the financial statements of the constituent companies. Share capital represents those shares issued by ITOL and TBH to the Thomson family and to the public shareholders under the reorganization (note 2). Retained earnings have been reduced by £2.6 million to reflect the shares issued in respect of the 10% petroleum interests not covered by the TTO option, and by £4.3 million for the net costs of capital transactions required to effect the reorganization (note 3(b)).

The results of operations for the year ended December 31, 1978 and for prior periods have been stated on a combined basis.

2. (a) Share capital

Authorized and issued share capital at December 31, 1978:

International Thomson Organisation Limited	
Authorized:	
149,999,023 preference shares with a par value of 25p each issuable in series	
First series:	
124,999,023 convertible redeemable preference shares	
50,000,977 common shares without par value	
Issued:	
104,494,767 convertible redeemable preference shares	26.1
34,830,109 common shares	8.5
	34.6
Thomson British Holdings Limited	
Authorized and issued share capital related to that of International Thomson Organisation Limited	
Authorized:	
149,999,023 convertible redeemable preference shares with a par value of 1p each	
50,000,977 common shares with a par value of 1p each (non-voting)	
Issued:	
104,494,767 convertible redeemable preference shares	1.1
34,830,109 common shares	0.3
	1.4
	36.0

ITOL and TBH related shares:

Each common and convertible share of ITOL has related to it, respectively, one common and one convertible share of ITOL's principal United Kingdom subsidiary, TBH. The common and convertible shares of each company are only transferable with the related common or convertible shares of the other company.

Dividends will be paid on the common and convertible shares of either ITOL or TBH at the option of the shareholder. These dividends will be paid on the TBH shares unless the shareholder has elected in writing to receive dividends on the ITOL shares. Dividends are payable according to elections in force, notwithstanding transfers of shares, and elections may be withdrawn or new elections made at any time.

Common shares:

The common shares of ITOL and related common shares of TBH rank as foreign currency securities for the purposes of United Kingdom exchange control regulations.

Dividends on ITOL common shares are payable in U.S. dollars. Dividends on TBH common shares are payable in sterling in the same amount based on the sterling/U.S. dollar rate of exchange at 11 a.m. in London on the business day prior to that on which the dividend is declared.

Dividends on the TBH common shares are payable in priority to any dividends on the TBH voting ordinary shares, all of which are held by ITOL.

The ITOL common shares are voting shares. TBH common shares are non-voting and may be redeemed by TBH at any time at their par value on not less than six months' prior notice.

Convertible redeemable preference shares:

Dividends on either ITOL or TBH convertible shares, which are cumulative, are payable in sterling at 10.5p per annum.

Each ITOL convertible share is convertible at the option of the holder at any time up to the close of business on September 30, 1988 at the rate of one ITOL common share for one ITOL convertible share. On conversion of an ITOL convertible share, the related TBH convertible share shall automatically be converted into a TBH common share unless at that time all TBH common shares shall have been redeemed in which case the TBH convertible share will be redeemed at par value.

ITOL convertible shares may be redeemed in whole or in part by ITOL after September 30, 1988 at par value. On redemption of an ITOL convertible share, the related TBH convertible share shall be redeemed on the same date at par value.

2. (b) Share capital changes for the year ended December 31, 1978

The share capital at December 31, 1977 of £10.8 million shown for comparative purposes in the consolidated balance sheet represents the issued ordinary share capital of TTO at that date. In 1978 this was increased to £32.3 million by a stock dividend of £21.5 million (note 3(b)) and then exchanged for shares in ITOL (£32.0 million) and TBH (£0.3 million) as shown below:

International Thomson Organisation Limited		
Share capital transactions to effect the reorganization (note 1)		
(1) Issued in respect of the ordinary shares of TTO		
To the Thomson family		
77,368,113 convertible shares	19.3	
25,789,371 common shares	6.4	
To the public shareholders		
19,587,131 convertible shares	4.9	
6,526,261 common shares	1.4	
		32.0
(2) Issued to the Thomson family in respect of 10% of petroleum interests not subject to the option held by TTO (note 3(b)) based on an independent assessment		
7,540,500 convertible shares	1.9	
2,513,500 common shares	0.7	
		2.6
Converted during the year 977 convertible shares into 977 common shares		—
Share capital at end of year		34.6
Thomson British Holdings Limited		
Share capital transactions to effect the reorganization (note 1)		
(1) Issued to the public shareholders in respect of their ordinary shares of TTO		
19,587,131 convertible shares	0.2	
6,526,261 common shares	0.1	
		0.3
(2) Issued to the Thomson family in reduction of an amount owing		
84,908,613 convertible shares	0.8	
28,302,871 common shares	0.3	
		1.1
Converted during the year 977 convertible shares into 977 common shares		—
Share capital at end of year		1.4
		36.0

3. Retained earnings

(a) Retained earnings at December 31, 1977 of £37.9 million shown for comparative purposes in the consolidated financial statements represent that portion of TTO's retained earnings, amounting at that date to £58.0 million, which is distributable by TBH or ITOL.

(b) Other changes in 1978 comprise:

Stock dividend by TTO (note 2(b))		(21.5)
Transfer to share capital in respect of shares issued to the Thomson family for 10% of TSA's petroleum interests (note 2(b))		(2.6)
Reorganization costs (note 1):		
Investment currency premium	(8.7)	
Expenses	(1.2)	
Retirement of indebtedness at below par	5.1	
Debt waived by the Thomson family	0.5	
		(4.3)
		(28.4)

Other changes in 1977 of £10.4 million represent appraisal surplus (note 16).

4. Minority interest

This comprises the interests of the preference shareholders of TTO and of the minority shareholders in subsidiaries of TTO.

The interests of the public holders of ordinary shares of TTO at December 31, 1977 of £13.9 million are included in shareholders' equity.

5. Business segment information

ITOL is a financial holding company of a group whose principal activities are the printing and publishing of newspapers, the publishing of magazines and books, the operating of travel and holiday companies and participating in the exploration, development and operation of North Sea and other oilfields. The table below shows net sales and trading profit attributable to the principal activities:

	Net sales		Trading profit	
	1978	1977	1978	1977
National newspapers	66.3	62.6	(1.3)	1.9
Regional newspapers	88.8	77.8	13.0	9.6
Publishing	83.5	71.8	7.2	8.0
Travel	152.1	124.0	17.3	4.1
Oil	163.2	95.4	109.9	81.9
Other activities	22.8	17.3	2.2	0.6
	576.7	448.9		
Associated companies			1.4	1.0
Costs and exchange gains not allocated to operating companies			(3.2)	0.1
			146.5	107.2

Included in 1978 trading profit are net exchange gains of £4.9 million (1977 – £18.3 million) of which gains of £6.2 million (1977 – £16.1 million) relate to the long-term debt denominated in U.S. dollars incurred to finance the development of the North Sea oilfields.

95% (1977 – 93%) of net sales relate to activities within the United Kingdom. Trading profit in both years is predominantly attributable to such activities.

6. Times Newspapers Limited

Publication of The Times, its supplements and the Sunday Times was suspended on November 30, 1978 and has not yet been resumed pending a satisfactory outcome of negotiations about future methods of operation. The costs during the period of suspension in 1978 amount to approximately £4.0 million and are included in determining trading profit.

The costs incurred during the continued suspension in 1979 will be accounted for in that year and provision has not been made for them in the financial statements for 1978.

Apart from the costs estimated to have amounted to £13.0 million during the first four months of 1979 and an estimated continuing monthly cost of £1.7 million, additional costs will be incurred in respect of voluntary redundancies and improved pension benefits arising as a result of settlement of the negotiations, against which future savings will accrue.

7. Depreciation, depletion and amortization

	1978	1977
Fixed assets	7.6	6.0
Share of development costs of North Sea oilfields	18.4	8.0
	26.0	14.0

8. Interest

Interest on long-term debt	16.7	16.5
Interest on short-term debt	1.4	0.8
Interest income	(8.3)	(1.8)
	9.8	15.5

9. Income taxes

Current	35.6	5.6
Deferred	55.3	46.0
	90.9	51.6

Income taxes include petroleum revenue tax of £32.4 million (1977 – £22.3 million) of which £12.1 million (1977 – £22.3 million) is deferred.

10. Extraordinary item

The extraordinary item in 1977 is a reduction of income taxes resulting from the recognition of prior years' losses.

11. Earnings per share

Earnings per share are presented in the consolidated statement of earnings on a fully diluted basis as it is anticipated that all convertible shares will be converted into common shares.

139.3 million common shares are assumed to be issued on the basis that:
(1) each share of ITOL and related share of TBH rank as one share;
(2) all convertible shares have been converted into common shares; and
(3) all shares have been in issue throughout the two years.

On the basis that the convertible shares are not converted into common shares and assuming preference dividends of 10.5p per convertible share for 1978 and 1977, the basic earnings per share in 1978 are 95.0p and in 1977 are 78.7p before extraordinary item and 93.6p after extraordinary item.

12. Dividends

	1978	1977
Dividends of £2.8 million (1977 – £2.6 million) paid on ordinary shares of TTO, less dividends from TTO retained by TBH of £2.2 million (1977 – £2.1 million)	0.6	0.5
On November 20, 1978 the directors of ITOL and TBH declared the following dividends payable on January 15, 1979 on the related shares of these companies:		
ITOL – Convertible shares (5.25p per share)	0.1	—
– Common shares (US $0.05 per share)	0.6	—
TBH – Convertible shares (5.25p per share)	5.4	—
– Common shares (2.56p per share)	0.2	—
	6.3	—
	6.9	0.5

13. Inventories

Raw materials	8.1	6.8
Work in progress	5.5	5.1
Finished goods	11.3	9.9
	24.9	21.8

14. Investments

Balance sheet amounts:		
Associated companies		
Listed	1.8	1.8
Unlisted	12.7	12.9
Other investments		
Listed	0.3	0.1
Unlisted	0.3	0.3
	15.1	15.1
Valuation:		
Listed – market value	2.7	2.7
Unlisted – directors' valuation	13.0	13.2
	15.7	15.9

15. Share of development costs of North Sea oilfields

	1978				1977
	Piper Field	Claymore Field	Shared facilities	Total	Total
Cost	58.6	57.8	59.1	175.5	136.6
Accumulated depreciation, depletion and amortization	13.3	3.3	9.8	26.4	8.0
	45.3	54.5	49.3	149.1	128.6

DeGolyer and MacNaughton, independent consultants, have estimated as at December 31, 1978 the proven recoverable oil reserves of the Piper and Claymore fields as set out below:

	Piper Field	Claymore Field	Total
	000's barrels		
Total recoverable reserves	618,000	404,200	1,022,200
ITOL's share	105,060	68,310	173,370
Less share of production			
– to end 1977	(11,146)	(407)	(11,553)
– 1978	(15,610)	(3,702)	(19,312)
Remaining share at December 31, 1978	78,304	64,201	142,505

ITOL's share is net of the royalty payable to the United Kingdom Government under the provisions of the relevant licences and other royalties payable in connection with the financing of the Piper and Claymore fields.

16. Fixed assets

	1978				1977
	Land and buildings	Machinery and equipment	Aircraft and spares	Total	Total
Appraised value	28.9	0.5	—	29.4	29.5
Cost	10.7	56.1	37.8	104.6	84.1
	39.6	56.6	37.8	134.0	113.6
Accumulated depreciation	2.2	21.8	10.6	34.6	29.8
	37.4	34.8	27.2	99.4	83.8

Major United Kingdom properties were appraised at December 31, 1977 by Leavers of London, England, at open market value as between a willing buyer and a willing seller. The resulting excess of the appraised values over the amounts shown in the financial statements of £10.4 million was credited to appraisal surplus at December 31, 1977 and merged with retained earnings in accounting for the reorganization in 1978.

17. Long-term debt

	1978	1977
Repayment related to oil and gas sales proceeds		
Secured bank loans in respect of:		
Piper field	14.3	30.2
Claymore field	34.0	48.9
Unsecured bank loan	3.9	6.3
	52.2	85.4
Repayment not related to oil and gas sales proceeds		
Bank loans – secured	—	12.4
– unsecured 1979-1985	54.0	50.1
3% First mortgage debenture stock 1964-1994	1.2	1.2
6¾% First mortgage debenture stock 1983-1988	2.4	2.4
7¼% Unsecured loan stock 1987-1992	0.9	0.9
Other long-term debt – secured 1979-2003	10.5	12.2
– unsecured 1979-1980	0.3	18.1
	69.3	97.3
Total long-term debt	121.5	182.7
Less: portion included in current liabilities not related to oil and gas sales proceeds	19.9	15.9
	101.6	166.8
Amount secured	62.4	107.3
Amount unsecured	59.1	75.4
	121.5	182.7
Denominated in:		
Sterling	11.2	18.3
U.S. dollars	94.8	152.6
Other currencies	15.5	11.8
	121.5	182.7

Long-term debt maturities not related to oil and gas sales proceeds due in each of the next five years are £19.9 million in 1979, which is included in current liabilities, £10.7 million in 1980, £15.6 million in 1981, £6.4 million in 1982 and £5.3 million in 1983.

Long-term debt maturities related to oil and gas sales proceeds, comprise, based on current production forecasts, £25.0 million estimated to fall due in 1979 and £27.2 million estimated to fall due between 1980 and 1983. Since repayment of these loans is dependent on future sales proceeds the amount estimated to fall due in 1979 has not been shown as a current liability at December 31, 1978.

Secured bank loans – Repayment related to oil and gas sales proceeds
The loans represent outstanding drawings under two limited recourse credit agreements with international consortia of banks which granted facilities of US $100 million for each of the two fields to finance their development. Repayment of the loans is by way of a fluctuating percentage of the sales proceeds of oil and gas. Final repayment of the Piper loan is due by September 30, 1983 and of the Claymore loan by December 31, 1982.

The Piper loan is secured by fixed and floating charges over the interest in the Piper field and related shared facilities. The Claymore loan is secured by fixed and floating charges over the interest in the Claymore field and related shared facilities and by a second charge over the interest in the Piper field and its related shared facilities. In each case, the security includes oil and gas sales proceeds for the respective fields.

There is no obligation to ensure full repayment of the loans by their final repayment dates nor in an event of default occurring, providing all obligations under the loan agreements have been carried out. Should an event of default occur under either loan, there may be a requirement immediately to pay over a fixed percentage of related sales proceeds received after June 30, 1978, less repayments made since that date.

3% *First mortgage debenture stock* 1964-1994:
The stock is redeemable at the minimum annual amount of £35,000 together with gross interest on the stock previously so redeemed satisfied by purchases at or below par or by drawings at par, and either (a) in whole or in part at the option of TTO with three months' notice at £101% before June 30, 1984 and at par thereafter, or (b) at par on the due date of July 1, 1994. The outstanding stock of £1.2 million is stated after deducting £0.3 million (1977 – £0.4 million) purchased for redemption but available for reissue; £0.5 million of stock originally authorized but unissued is also available for issue.

6¾% *First mortgage debenture stock* 1983-1988:
The stock is redeemable by annual sinking fund purchases of £60,000 together with gross interest on the stock previously so redeemed; stock purchased may be surrendered to the trustees at the cost of purchase or at par, whichever is the less, in satisfaction of the sinking fund payment, and either (a) at the option of TTO with three months' notice in whole or in part at par at any time after December 31, 1983, or (b) at par on the due date of December 31, 1988. The outstanding stock of £2.4 million is stated after deducting £1.8 million (1977 – £2.0 million) purchased for redemption.

7¼% *Unsecured loan stock* 1987-1992:
The loan stock is redeemable at the minimum annual amount of £17,100 at par, and either (a) at the option of TTO (i) at three months' notice in whole or in part at par at any time after December 31, 1987, (ii) by purchase or tender at any price, or (iii) by private treaty at a price not exceeding £105%, or (b) at par on the due date of December 31, 1992. The outstanding stock of £0.9 million is stated after deducting £0.7 million (1977 – £0.7 million) purchased for redemption.

Other long-term debt
These include instalments payable in respect of purchase agreements for the acquisition of Boeing 737 aircraft and the purchase of hotels.

Bank loan interest rates
Interest on bank loans is at rates varying between ½% and 2% above the relevant London inter bank offered rate.

18. Contingencies and commitments

(a) *Performance guarantees*

Indemnities have been given to banks by a subsidiary company amounting to £7.8 million (1977 – £6.3 million) to cover guarantees given by those banks to third parties covering performance by certain subsidiary companies of their obligations in providing inclusive tour holidays.

(b) *Capital expenditure*

	1978	1977
Capital expenditure contracted but no related liability incurred at end of year	17.6	2.4
Capital expenditure authorized but not contracted for at end of year	8.7	17.0
Share of consortia capital expenditure program on the North Sea oilfields authorized but no related liability incurred at end of year	25.0	36.0
	51.3	55.4

(c) *Rentals*

Rentals are payable principally in respect of leases for (a) Boeing 737 aircraft – for periods varying originally between six and twelve years entered into by a subsidiary between 1969 and 1974 and (b) hotels – for periods of between ten and twenty-five years entered into by subsidiaries.

Rentals paid in 1978 and payable in respect of the period 1979 to 1983 are as follows: 1978, £5.4 million; 1979, £4.4 million; 1980, £4.4 million; 1981, £3.9 million; 1982, £3.3 million; 1983, £3.0 million.

(d) *Contingent liabilities*

ITOL has contingent liabilities in respect of:

(1) the performance by two subsidiaries of their obligations as members of consortia involved in exploring for, developing and operating oilfields in blocks licensed to them in the North Sea, which include that, in the event of a failure by any member of the consortia to pay its share of consortia expenditure, the subsidiaries would have a liability to contribute proportionately towards the defaulting party's liability. Any monies so advanced would be secured on the defaulting party's share of the consortium assets;

(2) the performance by a subsidiary of certain obligations under arrangements entered into by that subsidiary for financing the development of the Piper and Claymore fields.

19. Remuneration of directors and senior officers

The aggregate remuneration paid or payable for the year by ITOL and its subsidiaries to directors and senior officers as defined by The Business Corporations Act of Ontario amounted to £130,000.

20. Parent company

The parent company is Thomson Equitable Corporation Limited.

21. Subsequent events

(a) ITOL has entered into an agreement with Thomson Equitable Corporation Limited (TECL), the parent company, conditional upon approval of holders of the common shares of ITOL, to acquire from TECL its investment in TECL International Investments Limited (TIIL) and TECL Investments Limited (TIL) and thereby the shares of Wadsworth, Inc., a leading college textbook publisher in the United States, based in San Francisco, California. Such investment consists of the outstanding common shares of TIIL and TIL, 11⅝% promissory notes of TIIL and interest-free advances by TECL to TIIL. The purchase price paid to the former shareholders of Wadsworth was US $32.3 million, of which US $19.8 million was provided by a bank loan to a subsidiary of TIIL and TIL. The purchase price payable in cash by ITOL to TECL will be US $13.4 million, which includes carrying costs of US $0.9 million to July 3, 1979, being the expected date of completion of the acquisition assuming the approval of shareholders.

(b) On March 9, 1979 ITOL acquired the whole of the issued share capital of Callaghan & Company, of Chicago, legal publishers. The greater part of the cost of the acquisition was financed by bank borrowings of US $18 million repayable over 5 years.

22. Summarized unconsolidated balance sheet

	December 31 1978	
Assets		
Current assets:		
Cash and bank term deposits	1.3	
Due from subsidiary companies	23.1	
		24.4
Investment in subsidiaries		35.2
		59.6
Liabilities and shareholders' equity		
Current liabilities, including £1.8 million due to parent company		2.5
Shareholders' equity:		
Share capital	34.6	
Retained earnings	22.5	
		57.1
		59.6

Retained earnings comprise earnings for the year of £31.7 million less costs of reorganization of £8.5 million, less dividends payable of £0.7 million.

Principal interests

United Kingdom

Thomson British Holdings Ltd

Thomson Scottish Associates Ltd
Oil and gas development

Thomson North Sea Ltd

Thomson North Sea Finance Ltd

Thomson Scottish Petroleum Ltd

The Thomson Organisation Ltd

Thomson Newspapers Ltd

Times Newspapers Ltd
(85% holding)
The Sunday Times including the Magazine
The Times
The Times Literary Supplement
The Times Educational Supplement
The Times Higher Education Supplement
Newspaper Archive Developments Ltd
Times Books Ltd
Selective Marketplace Ltd

Thomson Regional Newspapers Ltd

Aberdeen Journals Ltd
The Press and Journal
Evening Express

Belfast Telegraph Newspapers Ltd
Belfast Telegraph
Ballymena Observer
East Antrim Times

The Berkshire County Advertiser Ltd
Wokingham Times
Bracknell Times
Ascot Times
Crowthorne Times

Celtic Press Ltd
Aberdare Leader
Mountain Ash Leader
Merthyr Express
Rhymney Valley Express
Glamorgan Gazette
Pontypridd Observer
Llantrisant Observer
Rhondda Leader
Neath Guardian
Port Talbot Guardian
Gwent Gazette
Abergavenny Gazette

Newcastle Chronicle and Journal Ltd
The Journal
Evening Chronicle
Sunday Sun

North Eastern Evening Gazette Ltd
Evening Gazette (Teesside)

Western Mail and Echo Ltd
Western Mail (Wales)
South Wales Echo (Cardiff)

The Chester Chronicle and Associated Newspapers Ltd
Chester Chronicle
Chester Mail
Crewe Chronicle
Nantwich Chronicle
Northwich Chronicle
Winsford Chronicle
Middlewich Chronicle
Whitchurch Herald

Evening Post-Echo Ltd
Evening Post-Echo (Luton and Watford)

Lancashire & Cheshire County Newspapers Ltd
Wythenshawe Express
Salford City Reporter
Stockport Express
Wilmslow and Alderley County Express
Macclesfield Express

The Scotsman Publications Ltd
The Scotsman
Evening News (Edinburgh)

Edinburgh Advertiser Ltd
Edinburgh Advertiser (free sheet)

Highland Printers Ltd
Caithness Courier
Inverness and Highland News
John o'Groat's Journal
Lochaber News
North Star (Dingwall)

The North Western Newspaper Co Ltd
Lancashire Evening Telegraph (Blackburn)
Evening Star (Burnley)

Thames Valley Newspapers Ltd
Evening Post (Reading)

North London Weekly Herald Newspapers Ltd
Weekly Herald (Tottenham, Wood Green, Edmonton, Enfield, Southgate and Palmers Green)

Newspaper printing contractors
Thames Valley Newspapers Ltd
Evening Post-Echo Ltd
Celtic Press Ltd

General printing and engraving companies
Aberdeen Journals Ltd
The Chester Chronicle and Associated Newspapers Ltd
Macclesfield Press Ltd
Highland Printers Ltd
Reading Process Engraving Co Ltd

Newspaper consultants
Thomson International Press Consultancy Ltd

Retail newsagents
F. J. Glindon Ltd
Mills (North British) Ltd

Thomson Withy Grove Ltd
Newspaper printing contractor

Sporting Chronicle Publications Ltd
Sporting Chronicle
Sporting Chronicle Handicap Book
Sporting Chronicle Horses in Training
Raceform Up-to-Date
Raceform Up-to-Date Flat Annual
Raceform Up-to-Date National Hunt (annual)
Sporting Chronicle Ready Reckoner

Withy Grove Press Ltd
General printing

Thomson Withy Grove Transport Ltd
Newspaper distribution contractor

Thomson Publications Ltd
Thomson Magazines Ltd

Consumer publications
Burlington Magazine
Cheshire Life
Family Circle
Gloucestershire & Avon Life
Illustrated London News
Lancashire Life
Living
Pins and Needles
Political Quarterly
Warwickshire & Worcestershire Life
Yorkshire Life

Legal publications (European Law Centre)
Annual of Industrial Property Law
Commercial Laws of Europe
Common Market Law Reports
Eurolaw Commercial Intelligence
European Commercial Cases
European Law Digest
Fleet Street Reports

Business publications
Big Farm Management
Big Farm Weekly
Brewers' Guardian
Brewery Manual
British Clothing Manufacturer
British Journal of Clinical Equipment
British Journal of Hospital Medicine
Building Trades Journal
Catering Times
Communications International
Construction News
Construction Newsletter
Construction News Magazine
Consulting Engineer
Consulting Engineer's Who's Who and Year Book
Drapers' Record
Drapers' Record Diary and Year Book
Engineering Capacity
Engineering Capacity Who's Who
Factory Equipment News
F.E.N. Data
Hospital Development
Hospital Equipment & Supplies
Hospital Equipment & Supplies Product Card
Meat Trades Journal
Men's Wear
Men's Wear Year Book and Diary
New Electronics
Paper Facts & Figures
Penrose Annual
Print Buyer
Printing Equipment & Materials
Retail Jeweller
Tyres, Accessories & Batteries

Northwood Conferences and Seminars Ltd
Northwood Books Ltd

Thomson Books Ltd

Paperback
Sphere Books

General trade
Hamish Hamilton
Hamish Hamilton Children's Books
Elm Tree
Michael Joseph
Pelham
Rainbird Publishing

Educational
Thomas Nelson

Distribution
TBL Book Service

Thomson Data Ltd
Derwent Publications
(75% holding)
E.S.D.U. Marketing

Other interests
Glass's Guide Service
(51% holding)

Thomson Travel Ltd

Aircraft charter
Britannia Airways Ltd

Inclusive tours
Thomson Holidays

Travel retailing
Lunn Poly Ltd

Hotels
In Spain, Italy and Malta

Thomson Yellow Pages Ltd
(65% holding of preference shares and equity)
Sales agent for advertisements in Post Office telephone directories

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Thomson Forestry Holdings Ltd
Forestry investment
Thomson Scottish Forestry Ltd
Thomson Scottish Woodlands Ltd

EC (Holdings) Ltd
AI Welders Ltd

Computacar Ltd

Anglo Appointments Ltd

Thomson Land & Properties Ltd
Property investment and development

ASSOCIATED COMPANIES

Wigham Poland Holdings Ltd
(25% holding)

The Solicitors' Law Stationery Society Ltd
(39.1% holding)

Thomson Printers Ltd
(40% holding)

Thomson Anglo-Continental Properties Ltd
(50% holding)

Software Sciences Comprite Ltd
(24.5% holding)

United States

Callaghan & Company
Legal publishing (acquired March 1979)

Thomson Petroleum Holdings Inc.
(holding 90% interest in
Thomson-Monteith)

Thomson Vacations Inc.

Other interests

Thomson Publications (Australia) Pty Ltd
Australian Electronics Engineering
Australian Mining
Australian Mining Year Book
Australian Rate and Data
Building Product News
Construction Equipment News
Construction & Road Transport
Electrical Engineer
Electrical Supplies Guide
Factory Equipment News
Lighting Review
Mingays Price Service
Mingays Retailer & Merchandiser
Process & Chemical Engineering
Tenders
Thomsons Liquor Guide
Thomsons Travel News

Thomson Publications South Africa (Pty) Ltd
Chemical Equipment News
Commercial Transport
Daily Bulletin
Electrical Engineer
Electronics and Instrumentation
Fleet Owner
Food Industries of South Africa
Freight World
Hospital Medicine
Materials Handling News
Medical Equipment News
Metal Industries
Mining and Engineering Journal
Motor World
New Equipment News
Packaging Print
Plastics, Paint and Rubber
Power & Plant
Public Works Construction & Transport
Railways South African
Security & Protection
Shoes & Views
South African Building Products News
South African Hardware
South African Insurance
South African Shipping News
and Fishing
Textiles

P.E.I.S.A. (Spain)
(74% holding)
Confeccion Espanola
Correo de la Construccion
Doctor
Hospital Medicine
Mundo Industrial
Policlinica
Pressgraph

Other interests
Educational and general trade
Thomas Nelson (Canada)
Fleet Books (Canada)
Thomas Nelson (Nigeria)
(60% holding)
Thomas Nelson (Australia)
Halls Book Stores (Australia)
Bowmar/Noble Publishers (U.S.A.)

Business publications, directories, printing, furniture and stationery
Thomson Publications (Europe)
(Holland)
Luyben Investments (Holland)
Mostrups Forlag (Denmark)
Thomson Communications (Denmark)
Glass's Guide Service (Australia)
(51% holding)
Mead and McGrouther (South Africa)
(51% holding)

ASSOCIATED COMPANIES

Canada

Thomson International Corporation Ltd (TICL)
(25% holding)
Kraus-Thomson Organization Ltd
(51% holding by TICL)

Germany

Bertelsmann-Thomson Fachverlag GmbH
(45% holding)

Malta

Beauport Investment Trust Ltd
(49.1% holding)

Tunisia

Rym S.A.
(45.3% holding)

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